

MEMORANDUM COMMISSIONER XAVIER L. SUAREZ

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TO: Chairman Joe A. Martinez DATE: December 30th, 2011

CC: Miami-Dade County Board of RE: Task Force Report

Commissioners

FROM: Xavier L. Suarez

Commissioner, District 7

I. Introduction

You have asked me to head a task force that would make recommendations to you and the Board of County Commissioners as to how the county's government could be streamlined in a meaningful way.

In pursuance of that task, I have conducted the following meetings and fact ascertainments:

- 1. Sunshine Meeting with Chairman Joe Martinez (October 19, 2011).
- 2. Sunshine Meeting with Commissioner Sally Heyman (November 2, 2011).
- 3. Procurement fact ascertainment with Deputy Mayor Alina Hudak and Internal Services Director Lester Sola (November 16, 2011).
- 4. Extensive discussions with Internal Auditor Charles Anderson and Assistant Keith Conner.
- 5. A host of discussions and shared research with outside advisors on specific comparative budgets. (See attachment prepared by Paul Alcazar, PE, on Information Technology Department.)

II. THE TASK

The task you have assigned to me is monumental. To illustrate the magnitude of the task, below is a list of the parameters of what we are dealing with:

- The county owns approximately 4,500 facilities and/or fee simple lots.
- The county leases approximately 158 properties.
- There are currently 26 separate county departments, plus three self-supporting enterprises and the Public Health Trust ("PHT").
- Outstanding debt is approximately \$14 billion. Of this amount, about \$11.444 billion is revenue/special obligation debt, supported by special taxes, franchise fees, user fees and other non-ad valorem taxes. Since municipal debt is incurred in the range of 3.8% to 5.5% rate of interest, that means we are tying up as much as \$765 million annually of enterprise fees and similar revenues that could otherwise be used for operations or tax reductions.
- To manage its operating budget of \$4.440 billion, and its capital budget of \$1.674 billion, plus a host of grant programs, the county has concocted no less than 33,000 budgetary codes.
- The county's collective-bargaining employees number approximately 27,000 and are organized into ten labor unions.
- There are approximately 2,000 different salary levels in the county. The factors which go into calculating a particular employee's paycheck are myriad. They include risk of occupation, number of years of service, overtime and merit increases based on rank. (By comparison, the Federal Government, with 2,840,000 employees, has twenty-two basic "GS" pay classifications.)
- There are more than 3,000 county employees whose annual salary and benefits exceed \$100,000.
- The county's overall "span-of-control" (ratio of supervisors to rank-and-file) is less than 5:1.

III. SHORT-TERM SOLUTIONS

I begin the short-term analysis by analyzing two key departments which, at first blush, seem either over-staffed, overpaid, or both.

A. Micro Analysis #1 - Fire Department

This department is the best example of how not to manage a governmental function that has seen little modification in half a century. Department personnel totals slightly over 2,000 and, of those, no less than 689 (about one-third) are supervisory, to wit: lieutenants, captains, chief fire officers, and assistant chiefs. The ratio of supervisory personnel to rank-and-file ("span-of-control") is thus about 2:1.

Having a span-of-control equivalent of 2:1 is ludicrous. The justification given is that rescue and other vehicles are manned by a minimum of three firefighters, of which one should be supervisory (according to conventional wisdom). That justification is even more ludicrous.

Streamlining this department should start by elimination of all ranks above captain, resulting in elimination of no less than 80 positions, with salary and benefits of \$150,000, for a saving of \$12 million, not counting overhead.

B. Micro Analysis #2 - Information Technology Department

It is almost impossible to isolate this variable for short-term analysis, as the Information Technology ("IT") Department is inextricably linked to the current, unwieldy bureaucracy that is Miami-Dade County. More particularly, the role this department plays in supporting the 311 and 911 systems is not clear enough for a specific recommendation as to how much of its 538-employee staff, and \$124 million budget, can reasonably be reduced in the short term.

Intuitively, I have no doubt that the 311 system should be disbanded, and all calls routed to the appropriate department by a team of switchboard operators. In regards to the 911 system, it is almost entirely managed and operated by police and fire services.

In an attempt to find comparative figures for analogous departments and enterprises, I asked Paul Alcazar, PE, to analyze similar public and private agencies. His analysis is contained in Attachment #2 which compares our IT

functions to those of other governments and the private sector. The problem with comparisons to governments is that **all governments appear to over-rely on IT**. The comparison is also made difficult, in our case, since at least four agencies/enterprises in Miami-Dade County have their own in-house IT services. That includes the airport, seaport, Water and Sewer Department ("WASD"), and PHT.

It is not clear to me, at this point, whether the remaining functions of the county require IT services to the tune of \$124 million. The corporate analysis performed by Paul Alcazar concludes with a very rough estimate that the department is over-staffed in the range of 10% to 50%.

The highly technical nature of this department precludes any greater specificity at this time. Certainly, it is an ideal candidate for privatization. That process, if carried out competitively, would flush out what private entities would propose by way of substitute services, as well as what savings can be obtained therefrom.

Based on the above, there is no short-term savings from this proposed microreform.

C. Conclusions of Short-Term Analysis and Recommendations

In regards to short-term savings, it is impossible to have an accurate calculation of savings from non-personnel related reductions. Therefore, we limit the quantification of proposed savings to personnel reductions, leaving out, for the moment, consolidation of facilities, reform of procurement processes, and other overhead-related measures.

Using the same parameters as applied to the Fire Department, I would propose immediate elimination of 300 supervisory level positions.

Total annualized savings, assuming \$125,000 to \$150,000 in combined salary and benefits, total \$37.5 million to \$45 million.

Undoubtedly, these personnel savings would be accompanied by some measure of overhead savings. In regards to overhead, the savings are (1) difficult to calculate; and (2) mostly in the long-term. Due to the difficulty in quantifying, I will simply assume that overhead savings will offset any "bumping" effects from administrators who choose to resign their civil service functions. Given the salary level of most administrators and their pension benefits, it can be

assumed that very few will choose to regain their civil service positions since (by definition) those eligible to "bump" down to their highest pre-existing civil service positions are also those who have served longest as civil servants and have the highest pension benefits vested.

In view of the above, it is fair to conclude that the figure of \$37.5 million to \$45 million is conservative. In my opinion, it can be adopted as part of a mid-year budget modification, with future savings applied to other needs or returned to the taxpayers, as the commissioners might decide.

IV. LONG-TERM SOLUTIONS

For the fiscal year 2012-13, the following are the basic reforms, without which the ever-expanding bureaucracy will simply implode under its own weight. It is understood that the four existing enterprises (airport, seaport, WASD, and PHT) will continue functioning under their current accounting/management configuration.

A. Consolidation of Departments Into No More Than Ten, as Follows:

- 1. Building, Zoning and Planning;
- 2. Corrections;
- 3. Courts:
- 4. Cultural/Arts;
- 5. Fire;
- 6. Parks;
- 7. Police;
- 8. Public Works;
- 9. Transportation;
- 10. Administrative Services, including Legal.

B. Maximum of Ten Salary Levels per Department

At most, the civil service ranks would have seven pay grades, with fixed salary levels for the entire fiscal year. Exempt classifications would be limited to two (director and assistant director) or three (where a division chief is needed).

C. Maximum of Ten Expenditure Billing Codes or Categories per Department, Listed Provisionally as Follows:

- 1. Vehicles;
- 2. Rental of facilities;
- 3. Communications;
- 4. Utilities;
- 5. Fuel;
- 6. Salaries and benefits;
- 7. Replacement/Repair of equipment;
- 8. Supplies;
- 9. Interest on debt:
- 10. Miscellaneous.

Note: Simplifying the revenue codes is a difficult task at this point. The multiplicity of grant programs and inter-governmental fund transfers makes this task prohibitive within the time constraints imposed. Certainly it can be assumed that no more than 100 separate revenue codes are needed.

D. Immediate Cessation of all Non-General Obligation Bonds

The county should not be expanding its physical presence by committing special taxes, user fees, franchise fees, etc., to capital projects using special obligation bonds. Even revenue bonds, issued by enterprises such as the airport, seaport, and WASD, should be approved by voters and used sparingly when it is clear that current capacity is inefficient for short-term needs.

Furthermore, any commercially viable space should be sold to the highest private bidder immediately, which has the effect of (1) infusing cash into the treasury, (2) eliminating management costs of the facility sold, and (3) creating an *ad valorem* tax stream of revenues.

It is troubling that both the airport and seaport, which are managed by competent administrators, see as their function to develop county-owned properties into commercial facilities. The Port of Miami, for example, is undergoing a major and costly dredging effort (with doubtful economic benefits) and now proposes to add "commercial aspects to the business portfolio." It is questionable, and potentially self-defeating, for the public sector to even contemplate adding "commercial aspects to its business portfolio," when it should be moving expeditiously to transfer any surplus property to the private sector.

The same is true for the airport which is discussing a huge "airport city" at a time when its bonds are being downgraded due to the American Airlines bankruptcy. It behooves the county commission to immediately instruct the airport manager to evaluate all properties not needed for current services or future expansion, with a view to selling such holdings to the private sector.

E. Competitive Bidding for all County Acquisitions and Construction Projects

The county's procurement process is broken beyond comprehension. Three recent examples are worth mentioning.

Example #1

One example is a non-competitive (bid waiver) three-year contract award worth approximately \$100 million to AT&T, with projected savings of about \$2 million (2%) from what was effectively a sole-source purchase of service. On further inquiry, it appears that the communications service is for voice and data transmission over fiber lines, including about 18 large county facilities (which are inter-connected by county-owned trunk lines) and approximately 1,200 facilities that must rely on existing AT&T trunk lines. It is quite possible that the bid could have been bifurcated into two components: an inexpensive in-house system to communicate voice/data among those facilities which are already connected by county-owned trunk lines and a competitive bid for the rest of the facilities, most of which do not need to transmit large amounts of data **and can probably rely on wireless technology.**

Example #2

Another is a current outstanding bid for rail cars to replace existing ones in the Metrorail system. This \$330 million bid should have been done by strict price competition through sealed bids.

In this connection, it must be emphasized that the replacement of vehicles in a system that has been in operation for more than two decades is a classic example of a contract that should be awarded by strict, sealed-bid, price competition.

Example #3

A third example is a recent bid for aerial photography, amounting to approximately \$7 million. The county justifies this acquisition by referring to specs that require a visual resolution in the range of 3 inches for the four airport complexes. Since the four airports are owned and operated by the county, the exact height of each structure located therein can be ascertained by simple measurement or visual observation, which can be to the nearest centimeter. For the rest of the properties photographed, the resolution proposed is one foot, which is equivalent to 30.5 cm. It should be noted that the experts we have consulted are certain that cheaply available technology can provide a resolution of 41 to 46 cm. The commission was never informed of that alternative.

F. Sale of all Commercially Viable Properties

A classic example of commercially viable properties currently controlled by the county is found at the Miami Intermodal Center. Commercially viable space in that facility, adding up to 5.9 million square feet (if aggregated to the unused acreage abutting 37th Avenue, currently owned by Florida Department of Transportation) should be sold immediately, generating no less than \$129.8 million for the county – based on current area sales in the range of \$20/sq. ft.

A complete analysis of facilities and properties that can be consolidated or sold is contained in Attachment #1.

G. In-House Management (Reverse-Outsourcing) of Trunk-Line County Communications

See Competitive bidding for all county acquisitions and construction projects - Example #1 above.

H. Reverse Outsourcing of Existing Low-Cost Public Services

To the extent possible, the county should take advantage of existing investments that have a high fixed-cost component and low marginal cost for additional users. A classic example is healthcare services, where Jackson Memorial Hospital currently provides medical services to a large population.

It should be noted that the current administration of Jackson Memorial Hospital seems to understand this principle. The concept is thus exemplified by the PHT's recent takeover of medical exams given yearly to county employees.

These medical exams had been awarded by bid contract to Mount Sinai Medical Center and were taken back by commission action at the request of the PHT.

It behooves the county to follow the PHT's example in providing public services at lower cost to the users, where large fixed cost investments have already been absorbed. A good example is in the area of mass transit where the county should immediately move to reduce fares for Metrorail and Metrobus. Having built the required infrastructure and acquired the rolling stock (vehicles) at a huge fixed cost, it is incumbent on the county to reduce fares as close as possible to the marginal cost of each additional user so that the overall benefit to the citizenry is maximized.

I. Outsourcing of Wireless Communications

See Attachment #2 and the discussion outlined in *Short Term Solutions – Micro Analysis* #2, which deals with the reorganization or privatization of the entire Information Technology Department.

J. Elimination of all Non-Functional Take-Home Vehicles

The county currently funds about 3,400 take-home vehicles to all personnel. About one-fifth of all take-home vehicles are not currently being used to provide emergency or protective services. Limiting take-home vehicle privileges to the Miami-Dade Police Department and other emergency personnel in marked cars who reside within county limits would help achieve long-term savings versus the present system in which take-home vehicles are awarded to other personnel not performing these essential and/or emergency services.

Immediate savings cannot be quantified, as there is a need for evaluation of the entire take-home vehicle program and its participants. (Note that the administration has promised to complete an evaluation of this program and will hopefully report to the commission by year's end.)

K. Consolidation of all Non-Supervisory Staff into Stephen P. Clark Building

As can be seen in the mentioned Attachment #1 (memo from Janelle Jay to Commissioner Xavier Suarez), at minimum a total of four administrative facilities can be sold due to consolidation. Total current estimated value of said facilities is \$66 million.

L. Consolidation (with City of Miami) of Emergency Operations

There is no justification for having separate county and city emergency operations centers. The City of Miami facility is located a couple of blocks from the main county building and houses similar equipment to that of the county. It is manned 24 hours a day, is built to resist a Category 5 hurricane, and has communications capabilities that equal those of the county.

Most importantly, it receives power from underground cable lines that do not get knocked out during the most intense hurricane, such as Andrew in 1992. Also, it has emergency power generation on-site and at high enough elevation to avoid flooding under the most dire conditions.

This and other possible consolidations will result in substantial savings to the county. Ultimately, the entire administrative services of the county should be housed in the Stephen P. Clark building, whose 29 stories are more than enough to manage a governmental entity that renders basic services which are inherently decentralized.

The fact of the matter is that the county's basic municipal services have not substantially changed in a half-century and are inherently decentralized. Thus, we would never be able (or want to) consolidate 265 parks, 65 fire stations, 12 police stations, sewage and waste disposal facilities, and commuter transit stations -- not to mention a requisite number of jails and court facilities. However, as to all other administrative facilities, given the speed and facility of modern communications, it is unconscionable for a county like ours to require more administrative space than what is contained in a 29-story building.

It is incumbent on us to strive for that goal.

V. QUANTIFYING THE LONG-TERM RECOMMENDATIONS

A. Savings From Personnel Reductions

Using the span-of-control analysis for the entire county, and a benchmark workforce of 30,000 employees, we can estimate savings as follows:

| Total Employees: | 30,000 |
|----------------------------|--------|
| Current Supervisory | 5,000 |
| (using 5:1 span-of-control | |
| Current Rank-and-file | 25,000 |

| Modified Supervisory | 3,600 |
|------------------------------|-------|
| (using 7:1 span-of-control) | |
| Net Reduction in Supervisors | 1,400 |

As before, the personnel savings are calculated based on a range of \$125,000 to \$150,000 per employee, including benefits. Applying these figures to the supervisory personnel reduction of 1,400 positions means a total savings of \$175 million to \$210 million.

B. Savings From Salary Reductions

To the above must be added the savings from imposing a salary cap of \$150,000, including salaries and benefits, for the remaining supervisory employees. Assuming current proportions of these who exceed \$150,000 in salary and benefits, that adds up to \$9.8 million in additional savings which must be reduced by a factor of 1400/5000 for positions already eliminated. That results in a net reduction of \$7.1 million just for salary reductions.

C. Overhead Savings

To the above personnel and salary savings must be added overhead savings, which I estimate as an additional factor of 100%, based on 51.3% of the operating budget being consumed by salaries and benefits (leaving approximately 49% as overhead, or a nearly dollar-for-dollar equivalency). Thus, the personnel savings of \$175 million to \$210 million translate to \$350 million to \$420 million, not counting savings from salary reductions.

D. Grand Total/Operating

Adding all of the above estimates, we can fairly conclude that the proposed streamlining measures add up to \$357.1 million to \$427.1 million in operational savings.

E. Grand Total/Capital

From sale of existing facilities outlined in *Long-Term Solutions- Consolidation* of all supervisory staff into Stephen P. Clark Building, the county can be expected to derive \$66 million. To that should be added the sale of commercially viable space as described in *Long-Term Solutions - Sale of all commercially viable properties*, estimated at a little less than \$130 million.

Therefore, the total potential sale of these capital assets constitutes approximately \$200 million, assuming almost no increase in the present value.

In the following section, we discuss how both operating and capital savings can be used to improve the services rendered by the county and how the reforms can lead to the creation of almost 2,300 jobs.

VI. BUILDING BETTER COMMUNITIES THROUGH REFORM

Short History of Capital Project Funding

In 2004, the county voters approved \$2.9 billion in General Obligation debt, in a bond initiative called "Building Better Communities." The new capital was projected as a 15-year investment and is slowly, but surely, being used to provide infrastructure, arts complexes, landfill clean-up, and affordable housing.

At various times, Revenue and Special Obligation bonds have been issued. In the case of the enterprises, the expansion of facilities at the airport, seaport, and WASD has presumably been carried out to serve projected increases in demand. However, borrowing money without voter approval, by pledging operational revenues, is a fiscally dangerous practice that has greatly indebted the county.

To make matters worse, from the standpoint of voter confidence, even voter approved tax impositions have not resulted in the kinds of capital improvements expected by the community. In fact, very little has been done to augment the county's mass transit system, using the half-cent sales tax, which is currently managed under the People's Transportation Plan.

The result has been additional taxpayer alienation in the matter of public project financing. As a consequence, it is highly unlikely that voters will approve long term indebtedness to fund capital projects. The best prospect for funding future improvements is therefore to use capital savings from consolidation of facilities and consequent sale of unused properties, as further described below.

Funding Capital Improvements for Public Transportation

Future capital projects not funded by general obligation debt should use only capital savings and not streams of operational revenues, as has been the case in the past.

Under this approach, the sale of existing facilities and commercially viable space at the Miami Intermodal Center would generate approximately \$200 million. Allocating \$80 million of this amount to reserves (which duplicates our current estimate of \$80 million in reserves) still leaves \$120 million that can be used to purchase 280 trolleys (costing \$56 million at \$200,000/ea.) and another \$64 million that may be used to purchase 2,000 neighborhood circulators/mini-buses at \$32,000 per van. Note that this initiative, referred to as "rubberized mass transit," would create no less than 2,280 new permanent jobs.

What the Future Holds for Operational Budgets

On the operational side, I hesitate to make recommendations as to how to manage long-term savings. A good rule of thumb is to use one-half of the savings to reduce taxes and one-half to improve services. That is for county commissioners to decide. And it should be noted that the savings can greatly exceed the estimates shown here, once the reforms are in place.

Moreover, ending the practice of special obligation and revenue debt will generate savings that will ultimately result in returning \$765 million a year to the operating budget. This process will take approximately 25 years, as outstanding bonds are being retired at the approximate rate of 4% per year.

In effect, if the county holds the line on issuance of non-general obligation debt, each year's operating revenue will increase at the rate of approximately \$30 million which is close to 1% of what will be the reduced operating budget.

A Final Word on the Potential for Operational Savings

It should be emphasized that long-term overhead savings resulting from the streamlining proposed here are incalculable, but bound to be much greater than the estimates given here. A county with no more than 100 salary levels (as opposed to 2,000 now), 200 expenditure and revenue codes in its non-enterprise functions (as opposed to 33,000 now, including enterprise

functions), and one facility for administrative services (as opposed to eighteen now) will be enormously easier and cheaper to manage.

Span-of-control, which here is proposed to be increased from 5:1 to 7:1, could ultimately reach the levels found in the private sector (10:1 or higher). If that were to happen, the county would be managed more like a business and less like the top-heavy, almost indecipherable bureaucracy that exists today.

If this goal is reached, it is entirely possible that the county can not only decrease tax rates substantially but increase basic services. As the county's tax base increases with increased efficiency in the delivery of services, one can easily envision better parks programs, enhanced recycling of waste, additional police-beat patrols, additional rescue vehicles (resulting in shorter response time), and a much larger fleet of mass transportation vehicles serving substantially larger number of commuters.

One can also envision personnel hired for the specific purpose of welcoming tourists and passengers arriving at the airport, seaport, and other points of arrival. A county that depends greatly on tourism for its economic health should offer a friendly face and guiding hand to both visitors and residents.

Xavier L. Suarez Commissioner District 7